

**Craig Ranch Community
Association, Inc.**

**FINANCIAL STATEMENTS (AND
SUPPLEMENTARY
INFORMATION)**

December 31, 2020



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Craig Ranch Community Association, Inc.
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December 31, 2020

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INDEPENDENT AUDITORS' REPORT

To The Board of Directors and Members of
Craig Ranch Community Association, Inc.
McKinney, Texas

Opinion

We have audited the accompanying financial statements of Craig Ranch Community Association, Inc., which comprise the Balance Sheet as of December 31, 2020, and the related Statements of Revenue, Expenses and Changes in Fund Balance and Cash Flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Craig Ranch Community Association, Inc. as of December 31, 2020, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Craig Ranch Community Association, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are condition or events, considered in the aggregate, that raise substantial doubt about Craig Ranch Community Association, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not the purpose of expressing an opinion on the effectiveness of Craig Ranch Community Association, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate that raise substantial doubt about Craig Ranch Community Association, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited Craig Ranch Community Association, Inc.'s 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 12, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information contained in the Schedule of Changes in Accumulated Funds for Future Major Repairs and Replacements and Schedule of Operating Fund Revenue and Expenses – Budget and Actual is presented for purposes of additional analysis, and is not a required part of the financial statements. Such information is the responsibility of the Association's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Supplementary Information on Future Major Repairs and Replacements be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Carr, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, LLC

Miramar Beach, Florida
September 27, 2021

Craig Ranch Community Association, Inc.
Balance Sheet

<i>December 31,</i>	2020				2019
	Operating Fund	Enhancement Fund	Replacement Fund	Total	Total (For Comparative Purposes)
Assets					
Cash	\$ 2,502,361	\$ 1,639,875	\$ 1,646,180	\$ 5,788,416	\$ 6,148,324
Certificates of deposit	-	-	-	-	643,606
Accounts receivable, net	164,644	-	-	164,644	302,247
Insurance proceeds receivable	-	-	214,980	214,980	1,041,590
Due from parcel developer	-	-	-	-	173,421
Other receivables	3,639	-	-	3,639	8,187
Prepaid expenses	352,953	5,105	-	358,058	193,903
Property and equipment, net	49,765	-	-	49,765	79,413
Other assets	43,672	20,000	-	63,672	39,790
Interfund balance	(554,843)	(7,104)	561,947	-	-
Total assets	\$ 2,562,191	\$ 1,657,876	\$ 2,423,107	\$ 6,643,174	\$ 8,630,481
Liabilities and Fund Balance					
Liabilities					
Accounts payable	\$ 150,317	\$ 85	\$ -	\$ 150,402	\$ 684,762
Accrued expenses	28,653	-	-	28,653	515,811
Accrued hail damage repairs	-	-	228,143	228,143	1,322,245
Retainage payable	-	-	-	-	99,871
Prepaid assessments	1,535,270	-	-	1,535,270	565,193
Insurance finance agreement	148,740	-	-	148,740	54,637
Note payable	32,098	-	-	32,098	-
Performance obligation	-	-	2,116,587	2,116,587	1,951,674
Total liabilities	1,895,078	85	2,344,730	4,239,893	5,194,193
Fund balance - designated	-	1,657,791	78,377	1,736,168	2,872,152
Fund balance - undesignated	667,113	-	-	667,113	564,136
Total fund balance	667,113	1,657,791	78,377	2,403,281	3,436,288
Total liabilities and fund balance	\$ 2,562,191	\$ 1,657,876	\$ 2,423,107	\$ 6,643,174	\$ 8,630,481

The accompanying notes are an integral part of these financial statements.

Craig Ranch Community Association, Inc.
Statement of Revenue, Expenses and Changes in Fund Balance

<i>For the year ended December 31,</i>	2020				2019
	Operating Fund	Enhancement Fund	Replacement Fund	Total	Total (For Comparative Purposes)
Revenue					
Regular assessments	\$ 4,354,624	\$ -	\$ 328,106	\$ 4,682,730	\$ 3,859,334
Insurance assessments	180,378	-	-	180,378	410,081
Special assessments	-	-	-	-	250,000
Parcel developer deficit funding	138,355	-	-	138,355	153,410
Interest income	4,523	13,553	10,139	28,215	61,901
Other income	213,364	-	-	213,364	215,489
Insurance proceeds	-	-	-	-	5,549,767
Settlement income	-	-	-	-	81,459
Total revenue	4,891,244	13,553	338,245	5,243,042	10,581,444
Expenses					
Administrative	1,387,606	-	-	1,387,606	890,532
Bad debt provision	76,204	-	-	76,204	25,266
Community enhancements	-	1,123,416	-	1,123,416	1,714,462
Depreciation	29,648	-	-	29,648	29,648
Hail damage repairs	-	-	-	-	5,159,896
Insurance	703,528	-	-	703,528	423,015
Maintenance and repairs	1,781,952	-	1,220,729	3,002,681	2,408,111
Settlement	-	-	-	-	350,000
Utilities	869,735	-	-	869,735	693,680
Total expenses	4,848,673	1,123,416	1,220,729	7,192,818	11,694,610
Excess (Deficit) of Revenue over Expenses	42,571	(1,109,863)	(882,484)	(1,949,776)	(1,113,166)
Beginning Fund Balance	564,136	1,961,923	910,229	3,436,288	3,722,797
Capital Contributions	60,406	-	50,632	111,038	94,696
Community Enhancement Fees	-	805,731	-	805,731	731,961
Ending Fund Balance	\$ 667,113	\$ 1,657,791	\$ 78,377	\$ 2,403,281	\$ 3,436,288

The accompanying notes are an integral part of these financial statements.

Craig Ranch Community Association, Inc.

Statement of Cash Flows

<i>For the year ended December 31,</i>	2020				2019
	Operating Fund	Enhancement Fund	Replacement Fund	Total	Total (For Comparative Purposes)
Operating Activities					
Excess (deficit) of revenue over expenses	\$ 42,571	\$ (1,109,863)	\$ (882,484)	\$ (1,949,776)	\$ (1,113,166)
Adjustments to reconcile excess (deficit) of revenue over expenses to net cash provided (used) by operating activities:					
Bad debt provision	76,204	-	-	76,204	25,266
Depreciation	29,648	-	-	29,648	29,648
Changes in operating assets and liabilities:					
Accounts receivable	65,947	-	-	65,947	(206,109)
Insurance proceeds receivable	-	-	826,610	826,610	(1,041,590)
Settlement receivable	-	-	-	-	1,501,587
Due from parcel developer	173,421	-	-	173,421	(34,352)
Other receivables	-	(20,000)	-	(20,000)	10,979
Prepaid expenses	(161,390)	(2,765)	-	(164,155)	(76,396)
Other assets	(3,882)	-	-	(3,882)	(1,680)
Accounts payable	(54,166)	(285,179)	(195,015)	(534,360)	561,354
Accrued expenses	(479,682)	(3,976)	(3,500)	(487,158)	235,704
Retainage payable	-	(99,871)	-	(99,871)	99,871
Accrued hail damage repairs	-	-	(1,094,102)	(1,094,102)	(179,342)
Due to developer	-	-	-	-	-
Prepaid assessments	970,077	-	-	970,077	(250,869)
Insurance finance agreements	94,103	-	-	94,103	16,799
Performance obligation	-	-	164,913	164,913	153,836
Interfund balance	(485,416)	5,280	480,136	-	-
Net cash provided (used) by operating activities	267,435	(1,516,374)	(703,442)	(1,952,381)	(268,460)
Investing Activities					
Purchase of certificates of deposit	-	-	-	-	(643,606)
Redemption of certificates of deposit	-	-	643,606	643,606	-
Net cash provided (used) by investing activities	-	-	643,606	643,606	(643,606)
Financing Activities					
Short-term borrowings	40,545	-	-	40,545	-
Payments on short-term borrowings	(8,447)	-	-	(8,447)	-
Capital contributions and Community enhancement fees	60,406	805,731	50,632	916,769	826,657
Net cash provided (used) by financing activities	92,504	805,731	50,632	948,867	826,657
Net Increase (Decrease) in Cash	359,939	(710,643)	(9,204)	(359,908)	(85,409)
Cash at Beginning of Year	2,142,422	2,350,518	1,655,384	6,148,324	6,233,733
Cash at End of Year	\$ 2,502,361	\$ 1,639,875	\$ 1,646,180	\$ 5,788,416	\$ 6,148,324

The accompanying notes are an integral part of these financial statements.

Craig Ranch Community Association, Inc.

Notes to Financial Statements

NOTE 1: DESCRIPTION OF THE ORGANIZATION

Craig Ranch Community Association, Inc. (the "Association") (a property owners association) was formed on March 10, 2004, as a Texas not-for-profit corporation to provide for overall development expansion, administration, maintenance, preservation and architectural control of the Community of Craig Ranch and to maintain and operate property and facilities for the common benefit of the owners and residents. The community consists of approximately 6,037 equivalent units of ownership, including 4,125 residential units and 1,912 commercial units. This development consists of approximately 2,200 acres in McKinney, Texas.

The Association was organized for the purpose of maintaining and protecting the elements owned by the owners in common, such as roads, gated entry ways, landscaping, ponds, water features, playground, pool, clubhouse, restroom, track, stormwater management system and other property as deeded from the developer. Disposition of common area property requires consent of the members in accordance with the governing documents.

All policy decisions including the annual budget and owners' assessments are formulated by the Board of Directors. Decisions are referred to the general Association membership before action is taken, when so required by the governing documents of the Association.

For 2020 through June 30, 2020, management and accounting services were provided by Capital Consultants Management Corporation. As of July 1, 2020, management and accounting services are provided by Community Management Associates, Inc.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The Financial Accounting Standards Board (FASB) provides authoritative guidance regarding U.S. GAAP through the Accounting Standards Codification (ASC) and related Accounting Standards Updates (ASUs). The financial statements include certain prior year summarized comparative information in total but not by fund. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended December 31, 2019, from which the summarized information was derived.

Estimates

The preparation of U.S. GAAP financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Craig Ranch Community Association, Inc.
Notes to Financial Statements

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Funds

The Association is a not-for-profit organization that employs the fund method of accounting in order to properly account for restrictions on the expenditures resulting from actions of the Board of Directors or the Association voting membership. The financial statements segregate the accounting for such funds as Operating, Enhancement or Replacement Funds. At the end of the year, excess funds are retained by the fund generating such excess during the year.

The Operating Fund is used to account for financial resources available for the general operations of the Association. Disbursements from the Operating Fund are generally at the discretion of the Board of Directors.

The Enhancement Fund consists of accumulated enhancement fee contributions. These community enhancement fees are intended to be used for wildlife preservation and maintenance, cultural programs, recreational leagues, festivals, holiday celebrations, educational programs and community outreach programs. See Note 12 for further details.

The Replacement Fund is used to account for assessments made for major repair and replacement of common property, and related expenses. Disbursements from the Replacement Fund may only be utilized in accordance with Texas Property Code and the purposes established by the Board of Directors and the Association membership. Interest income earned in the Replacement Fund is maintained in the pooled reserves balance within each service area.

Cash and Cash Equivalents

Cash and cash equivalents include cash and all highly-liquid debt instruments with an original maturity of 90 days or less.

Accounts Receivable from Owners and Allowance for Doubtful Accounts

Accounts receivable from owners are reported at the outstanding balance due from owners, net of any allowance for doubtful accounts. The Association provides for doubtful accounts based on experience and analysis of individual accounts. When specific accounts are determined to be uncollectible, they are written off by charging the allowance and crediting receivables. The Association's allowance for doubtful accounts totaled \$237,609 at December 31, 2020.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items on the Balance Sheet. These items will be expensed over the applicable usage period.

Craig Ranch Community Association, Inc.
Notes to Financial Statements

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capitalization and Depreciation Policy

Real property acquired by the Association is capitalized when it (a) is used to generate significant cash flows from members on the basis of usage or from nonmembers or (b) can be disposed of for cash with the Association retaining proceeds. Real property acquired by the Association that does not meet these guidelines is not capitalized, and accordingly, replacements, major repairs, and improvements to this property are not capitalized; instead, they are reported as expenses in the fund making the expenditure. Real property that has not been capitalized is identified in Note 1.

Property and equipment acquired by the Association is capitalized at cost and depreciated over its estimated useful lives, which range from 5 to 10 years, using the straight-line method. These assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. If such events or circumstances indicate the cost of any long-lived asset may be impaired, an evaluation of recoverability would be performed.

Contract Assets and Liabilities

Contract assets represent revenue recognized in excess of amounts billed. No such amounts are reported on the Balance Sheet as of December 31, 2020. Contract liabilities represent revenue collected in advance of the contract period or amounts billed in excess of revenue recognized. These liabilities are reported on the Balance Sheet as prepaid assessments and performance obligation liabilities.

Revenue Recognition

The Association recognizes revenue when performance obligations under the terms of the contracts with customers are satisfied. Revenue is recognized in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. For purposes of this Association, the definition of customers includes the Association's members.

Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, September 27, 2021. See Note 16 for relevant disclosures. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

Craig Ranch Community Association, Inc.
Notes to Financial Statements

NOTE 3: OWNERS' ASSESSMENTS

Master association assessments are levied against all lot owners, on a pro-rata basis, to fund the Association's expenses which are common to or benefit the Association's membership at large, such as ownership and operation of the common areas and any recreational amenities, maintenance, insurance, administrative costs, and related items. Base assessments are determined on the basis of a budget prepared annually by the Board of Directors covering the estimated costs of operating the Association during the coming year. The annual rate for 2020 for all owners was \$351.

Subdivisions and service areas within the Association are charged additional assessment fees for expenses that directly impact their subdivisions and service areas as follows: Members of Craig Ranch North neighborhood were assessed an additional annual assessment of \$310. Members of Estates at Craig Ranch were assessed an additional monthly assessment ranging from \$140 to \$176. Members of Hemingway at Craig Ranch ("Hemingway") were assessed an additional monthly assessment of \$220. Members of Chateaus of the Settlement at Craig Ranch ("Chateaus") were assessed an additional monthly assessment of \$256. Members of Settlement Townhomes were assessed an additional monthly assessment of \$375. Members of Southern Hills at Craig Ranch were assessed an additional annual assessment of \$519. Members of Spicewood at Craig Ranch were assessed an additional semi-annual assessment of \$451. Members of The Trails at Craig Ranch were assessed an additional semi-annual assessment of \$231. Members of The Grove at Craig Ranch were assessed an additional semi-annual assessment of \$276. Members of Watters Branch at Craig Ranch were assessed an additional semi-annual assessment of \$417. Members of Liberty Hills at Craig Ranch were assessed an additional semi-annual assessment of \$273, for the use of the pool at Watters Branch. Members of Wessex Townplace were assessed an additional monthly assessment of \$55, beginning August 2020. Levied regular assessments for the year ended December 31, 2020 totaled \$4,847,643, of which \$493,019 was allocated to the Replacement Fund. The following table reconciles budgeted regular assessments to the amounts recognized as assessment revenue in the Statement of Revenue, Expenses and Changes in Fund Balance:

<i>For the year ended December 31,</i>	2020		
	Operating Fund	Replacement Fund	Total
Budgeted regular assessments	\$ 4,354,624	\$ 493,019	\$ 4,847,643
Less additions to performance obligation	-	(493,019)	(493,019)
Add releases from performance obligation	-	328,106	328,106
Total assessments	\$ 4,354,624	\$ 328,106	\$ 4,682,730

In June 2020, the Association levied insurance renewal assessments for three of the service areas to help fund the insurance premiums for the 2020-2021 policy periods. The Chateaus assessment is \$1,151 per owner, totaling \$44,880. The Settlement Townhomes assessment is \$242 per owner, totaling \$4,830. The Hemingway assessment is \$369 per owner, totaling \$130,668. The related insurance premiums were due in 2020; accordingly, the revenue from these insurance renewal assessments were recognized in 2020.

Craig Ranch Community Association, Inc.

Notes to Financial Statements

NOTE 4: REVENUE RECOGNITION

As disclosed in Note 2 to the financial statements, the Association's customers consist of its members, which are unit owners within the development. The contracts between these customers and the Association primarily relate to maintaining, managing and providing access to the property and amenities owned in common by the unit owners.

Performance Obligations

The Association's revenue is derived primarily from assessments to its members. The Association generally recognizes its revenue from contracts with customers over time with the exception of reserve, parcel and special assessments, which are being recognized at a point in time. As of December 31, 2020, the Association has reported a performance obligation liability totaling \$2,116,587, relating to the future major repair and/or replacement of specific components of common property. The assessments related to this performance obligation are generally reported in the Replacement Fund and will be recognized as revenue at the point in time when the funds are expended for their designated purpose.

Significant Judgments

For those revenue items recognized over time, the Association generally utilizes the input method of measurement, where revenue is recognized based on the Association's efforts towards the satisfaction of a performance obligation. For Operating Fund amounts, revenue is recognized as time elapses and the Association performs routine maintenance, protection and management of the common area property. For Replacement Fund and special/insurance assessment amounts, the Association recognizes revenue at the point in time when the related expenses are incurred.

Topic 606 does not apply to interest income, which is recognized in the period it is earned.

Disaggregated Revenue

The Association derives its revenue from various activities and sources having different qualitative factors that may affect the amount, timing, or uncertainty of revenues and cash flows.

Craig Ranch Community Association, Inc.
Notes to Financial Statements

NOTE 4: REVENUE RECOGNITION (Continued)

The following chart contains disaggregated revenue information that reflects these qualitative factors:

<i>For the year ended December 31,</i>	2020
Recognized over time	
Operating fund assessments	\$ 4,354,624
Recognized at a point in time	
Replacement fund assessments	328,106
Insurance assessments	180,378
Parcel developer funding	138,355
Other income	213,364
Not subject to ASC Topic 606	
Interest income	28,215
Total revenue	\$ 5,243,042

The following table presents information about accounts receivable, contract assets, and contract liabilities:

<i>For the year ended December 31,</i>	2020
Accounts receivable, net - beginning balance	\$ 302,247
Accounts receivable, net - ending balance	164,644
Contract assets - no beginning or ending balance for the year	
Contract liabilities	
Prepaid assessments - beginning balance	565,193
Prepaid assessments - ending balance	1,535,270
Performance obligation liabilities - beginning balance	1,951,674
Performance obligation liabilities - ending balance	2,116,587

NOTE 5: FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents require the Association to accumulate funds for future major repairs and replacements, unless otherwise decided by the voting membership. The Association has adopted a program to accumulate funds for estimated future major repairs and replacements through regular assessments.

Craig Ranch Community Association, Inc.
Notes to Financial Statements

NOTE 5: FUTURE MAJOR REPAIRS AND REPLACEMENTS (Continued)

The Board of Directors annually reviews the major components of common property. As a part of this review, the Board re-evaluates the estimated remaining useful lives and the estimated replacement costs of each of the components of the Replacement Fund. Where applicable, licensed contractors and architects are consulted regarding useful lives and replacement costs. The Board of Directors last performed a review of the estimated replacement costs, remaining lives, and funding requirements for the reserve components in 2020, based on an independent professional study conducted in 2017. The Association obtained independent professional studies in 2020 for the 2021 budget, which was also utilized in preparing the Supplementary Information on Future Major Repairs and Replacements (Unaudited) on page 22.

The Association is funding for future major repairs and replacements over the estimated useful lives of the components based on their study's estimates of replacement costs and considering amounts previously accumulated in the Replacement Fund. Accordingly, the total funding amount of \$493,019, based on a full funding plan, was included in the 2020 budgets for the master and all service areas. Also, the Association collected \$50,632 of initial reserve assessments across all service areas, which are collected at the closing of new homes and resale homes within the Association and used to provide further resources to the Replacement Fund.

Actual expenditures, however, may vary from the estimated amounts and the variations may be significant. Therefore, amounts accumulated in the Replacement Fund may not be adequate to meet future needs. If additional funds are needed, the Association has the right to increase regular assessments, to levy special assessments, or it may delay major repairs and replacements until funds are available.

NOTE 6: INCOME TAXES

The Association is a tax-exempt organization under Section 501(c)(4) of the Internal Revenue Code. Therefore, there is no provision or liability for federal income taxes included in the accompanying financial statements. Under this section, the Association is not taxed on income and expenses related to its exempt purpose, which is the acquisition, construction, management, and maintenance of Association property. Net nonexempt function income, which includes unrelated business income and revenues from nonmembers, is taxed at regular federal corporate tax rates. For the year ended December 31, 2020, the Association had no income tax expense.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Association and recognize a tax liability if the Association has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. Management has analyzed the tax positions taken by the Association and has concluded that as of December 31, 2020, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The Association's

Craig Ranch Community Association, Inc.
Notes to Financial Statements

NOTE 6: INCOME TAXES (Continued)

policy is to record interest expense or penalties related to income tax in (operating) expense. For the year ended December 31, 2020, no interest or penalties were paid or accrued. The Association is subject to routine audits by taxing jurisdictions; however, there are no audits for any tax periods in progress. The Association's management believes it is no longer subject to income tax examinations for years prior to 2017.

NOTE 7: CREDIT RISK

The Association assesses regular and special assessments to its members. It is the Association's policy to turn over significantly past due accounts for collection and to file liens against the individual owner units. Should the collection of any such liens be enforced by sale of the unit, the collectability of the receivable is dependent on the quick sale market value of the unit, and the amount of any other liens that have priority. Market value may be influenced by the real estate market in McKinney, Texas.

NOTE 8: PROPERTY AND EQUIPMENT

The following schedule summarizes the Association's property and equipment:

<i>December 31,</i>	2020
Office leasehold improvements	\$ 296,460
Furniture and equipment	5,266
Total property and equipment	301,726
Less accumulated depreciation	(251,961)
Property and equipment, net	\$ 49,765

Depreciation expense for the year ended December 31, 2020 was \$29,648.

NOTE 9: INTERFUND BALANCE

As of December 31, 2020, the Operating Fund owed \$561,947 to the Replacement Fund, primarily due to insurance proceeds, special assessments and insurance assessments deposited in the Operating Fund and recognized in the Replacement Fund in 2019. See Note 14 for further details about the insurance proceeds and hailstorm damage repairs. This interfund balance is reported on the accompanying Balance Sheet.

Craig Ranch Community Association, Inc.
Notes to Financial Statements

NOTE 10: INSURANCE FINANCE AGREEMENTS

The Association has obtained short-term notes payable with financial institutions to finance its annual insurance policy premiums. The notes were payable in monthly installments ranging from \$3,358 to \$16,664, bore interest at rates ranging from 7.8% to 8.7%, and matured in May 2021. The balance of the notes at December 31, 2020 totaled \$148,740.

NOTE 11: CAPITAL CONTRIBUTIONS

Every transfer of a home by an owner other than the developer is liable to the Association for a sales fee (i.e. capital contribution). The fees vary depending on the particular subdivision or service area and range from two months to six months of assessment fees for the Operating Fund and the Replacement Fund. The capital contributions related to sales within the Association's community is intended to provide the Association with additional working capital. During the year ended December 31, 2020, the Association assessed capital contributions of \$60,406 and \$50,632 in the Operating and Replacement Funds, respectively.

NOTE 12: ENHANCEMENT FEES

The Association's Community Charter (the "Charter") requires that all real estate sales within the development pay an amount for community enhancement fees; excluding sales from or to the Founder ("Developer") and Developer sales to a parcel developer or builder that holds title solely for purposes of development and resale. This fee is calculated as 0.25% of the first \$300,000 of the total sales price, plus 0.5% of the sales price in excess of \$300,000. The fees are to provide funding for activities and such other purposes as the Board of Directors deems beneficial to the general good and welfare of the Community (e.g. enhancements to recreational areas, etc.). For the year ended December 31, 2020, the Association assessed enhancement fees of \$805,731 and incurred expenses of \$1,123,416, which is reported in the Enhancement Fund on the accompanying Statement of Revenue, Expenses and Changes in Fund Balance. Accumulated enhancement fees are included in Enhancement Fund balance on the accompanying Balance Sheet.

NOTE 13: PARCEL DEVELOPER DEFICIT FUNDING

Each service area has a parcel developer, who are not related to the Developer. According to the governing documents for each service area, the parcel developer can choose, instead of assessments, to pay any shortfall under the operating budget, excluding bad debt. For the year ended December 31, 2020, the operations of certain service areas were funded by parcel developers, and parcel developer funding totaled \$138,355.

Craig Ranch Community Association, Inc.
Notes to Financial Statements

NOTE 14: 2019 HAIL DAMAGE INSURANCE CLAIMS

In March 2019, a hail storm caused damage throughout the Association. Several service areas within the Association filed claims for the hail damage repairs.

The Chateaus claim totaled \$552,322, and was later updated to \$675,335. In 2020, the Chateaus received insurance proceeds totaling \$576,732, which represents the amount of the claim, less recoverable depreciation of \$76,271 and the net deductible of \$25,000. Insurance proceeds totaling \$653,003, which includes the recoverable depreciation amount, was reported as revenue in 2019, and approximately \$105,000 is included in Insurance proceeds receivable in the Replacement Fund on the accompanying Balance Sheet at December 31, 2020. In June 2020, the Chateaus entered into a repairs contract, including addendum, totaling \$675,335, which was reported as expense in 2019, and approximately \$55,000 is included in Accrued hail damage repairs in the Replacement Fund on the accompanying Balance Sheet at December 31, 2020. The project was started in June 2020 and is expected to be completed in 2021.

The Estates at Craig Ranch ("The Estates") claim totaled \$122,413. In 2019, the Estates received insurance proceeds totaling \$79,269, which represents the amount of the claim, less recoverable depreciation of \$42,144 and deductible of \$1,000. Insurance proceeds totaling \$121,413 was recorded as revenue in 2019, which includes the recoverable depreciation amount, and the recoverable depreciation of \$42,144 is included in Insurance proceeds receivable on the accompanying Balance Sheet at December 31, 2020. In June 2020, the Estates entered into a repairs contract totaling \$75,800. Total estimated repairs totaling \$122,413 was recorded as expense in 2019, of which approximately \$45,000 is included in Accrued hail damage repairs in the Replacement Fund on the accompanying Balance Sheet at December 31, 2020. A portion of the repairs project was started in June 2020 and is expected to be completed in 2021.

The Hemingway claim totaled approximately \$5.7 million. In August 2019, the Association received insurance proceeds of approximately \$4.3 million, which was reported as revenue in 2019, and represents the final claim net of the deductible. In addition, the Association approved a contract with a contractor to make the related repairs totaling approximately \$4.3 million. The hail damage repairs project was completed in 2019. The final cost of repairs came in less than anticipated at approximately \$3.8 million, which was reported as expense in 2019.

Craig Ranch North claim totaled \$167,795. In 2019 and 2020, Craig Ranch North received insurance proceeds totaling \$87,209 and \$46,139, respectively, which combined represent the amount of the claim, less recoverable depreciation of \$33,447 and deductible of \$1,000. Insurance proceeds totaling \$166,795, which includes the recoverable depreciation amount, was reported as revenue in 2019, of which approximately \$33,000 is included in Insurance proceeds receivable on the accompanying Balance Sheet at December 31, 2020. In May 2020, Craig Ranch North entered into a repairs contract totaling \$167,795, which was expensed in 2019, and approximately \$17,000 is included in Accrued hail damage repairs in the Replacement Fund on the accompanying Balance Sheet at December 31, 2020. The project was started in May 2020 and is expected to be completed in 2021.

Craig Ranch Community Association, Inc.
Notes to Financial Statements

NOTE 14: 2019 HAIL DAMAGE INSURANCE CLAIMS (Continued)

The Settlement Townhomes claim totaled \$267,319. In 2020, the Settlement Townhomes received insurance proceeds totaling \$231,125, which represents the amount of the claim, less recoverable depreciation of \$24,726, supplemental claim of \$1,468 and net deductible of \$10,000. Insurance proceeds totaling \$257,319, which includes the recoverable depreciation and supplemental claim amounts, was reported as revenue in 2019, and approximately \$25,000 is included in Insurance proceeds receivable on the accompanying Balance Sheet at December 31, 2020. In June 2020, the Settlement Townhomes entered into a repairs contract totaling \$267,319, which was reported as expense in 2019, and approximately \$27,000 is included in Accrued hail damage repairs in the Replacement Fund on the accompanying Balance Sheet at December 31, 2020. The project was started in June 2020 and is expected to be completed in 2021.

The Association also filed a claim for certain common property, and for the Spicewood, Southern Hills, Trails, Watters Branch, and The Grove service areas, totaling \$89,383. In 2019, the Association received insurance proceeds totaling \$65,015, which represents the amount of the claim, less recoverable depreciation of \$9,538 and deductible of approximately \$15,000. Insurance proceeds totaling \$74,553, which includes the recoverable depreciation amount, was reported as revenue in 2019. Estimated repairs totaling \$89,383 was reported as expense in 2019, of which approximately \$76,000 is included in Accrued hail damage repairs in the Replacement Fund on the accompanying Balance Sheet at December 31, 2020.

NOTE 15: UNCERTAINTIES

In March 2020, the World Health Organization made the assessment that the outbreak of a novel coronavirus (COVID-19) can be characterized as a pandemic. As a result, uncertainties have arisen that may have a significant negative impact on the operating activities and results of the Association. The occurrence and extent of such an impact will depend on future developments, including (i) the duration and spread of the virus, (ii) government quarantine measures, (iii) voluntary and precautionary restrictions on travel or meetings, (iv) the effects on the financial markets, and (v) the effects on the economy overall, all of which are uncertain.

NOTE 16: SUBSEQUENT EVENTS

In February 2021, a deep freeze effected a large portion of the state of Texas, including McKinney, Texas. The Association incurred significant damage from this event, as pipes burst in the Hemingway clubhouse and a few townhomes in the Hemingway and Settlement Townhomes service areas, causing significant damage. In April 2021, the Association approved master landscape improvements and replacement of freeze damaged vegetation totaling approximately \$294,000.

Craig Ranch Community Association, Inc.
Notes to Financial Statements

NOTE 16: SUBSEQUENT EVENTS (Continued)

In April 2021, the Association's insurance carrier for the Hemingway and Settlement Townhomes was declared insolvent by Florida's Insurance Regulator and recommended it be placed in receivership. The Association's claims related to the deep freeze and resulting damage is anticipated to approximate \$1 million; however, because of the issues with the insurance carrier, the Association has not yet received the adjuster's report to determine the total amount of its claims. The ultimate outcome is unknown at this time.

In April 2021, the Association levied insurance renewal assessments to cover the increased cost of new insurance premiums for the 2021-2022 policy periods, for the Hemingway and Settlement Townhomes service areas. The Settlement Townhomes assessment is \$943 per owner, totaling \$18,854, and due on June 1, 2021, with an option to be paid over seven months from June 1 to December 1, 2021 at \$135/month. The Hemingway assessment is \$1,030 per owner, totaling \$364,485, and due on June 1, 2021, with an option to be paid over seven months from June 1 to December 1, 2021 at \$147/month. The related insurance premiums are due in 2021; accordingly, the revenue from these special assessments will be recognized in 2021.

In addition, the Association obtained four short-term notes payable with financial institutions to finance its annual insurance policy premiums. The notes are payable in monthly installments ranging from \$1,398 to \$64,175, bear interest 4.5%, and mature during the period from November 2021 through March 2022. The notes are secured by unamortized insurance premiums.

NOTE 17: RELATED PARTY TRANSACTIONS

In December 2020, \$20,000 was paid from the Enhancement Fund to an organization associated with a member of the Board of Directors to secure furniture and fixtures for the amenity center. At December 31, 2020, the \$20,000 deposit is recorded as other assets on the accompanying Balance Sheet.

Supplementary Information

Craig Ranch Community Association, Inc.
Schedule of Changes in Accumulated Funds for Future Major Repairs and Replacements

For the year ended December 31,

2020

Component	Beginning Balance	Additions	Subtractions	Ending Balance
Master				
Pooled items:				
Community elements			\$ (1,500)	
Signage			(1,107)	
Dr. Kenneth Cooper Park			(222,308)	
Total pooled	\$ 413,680	\$ 59,711	(224,915)	\$ 248,476
Chateau's of the Settlement at Craig Ranch				
Pooled items:				
Exterior building elements			(3,351)	
Total pooled	66,531	9,479	(3,351)	72,659
Estates at Craig Ranch				
Nonpooled items:				
Streets	131,662	-	-	131,662
Pooled items:				
Access control and perimeter elements			(6,839)	
Pond elements			(13,478)	
Total pooled	165,783	100,026	(20,317)	245,492
The Grove at Craig Ranch				
Pooled items:				
Shade structure			(512)	
Total pooled	32,567	13,403	(512)	45,458
Hemingway at Craig Ranch				
Pooled items:				
Exterior building elements			(754,397)	
Pool elements			(4,750)	
Property site elements			(123,344)	
Total pooled	1,586,106	210,913	(882,491)	914,528

(continued)

Craig Ranch Community Association, Inc.
Schedule of Changes in Accumulated Funds for Future Major Repairs and
Replacements (Continued)

For the year ended December 31,

2020

Component	Beginning Balance	Additions	Subtractions	Ending Balance
Craig Ranch North				
Pooled items:				
Pool and pool house elements			\$ (17,250)	
Property site elements			(34,664)	
Total pooled	\$ 215,964	\$ 87,564	(51,914)	\$ 251,614
Settlement Townhomes				
Pooled items:				
Exterior building elements			(32,197)	
Total pooled	98,320	14,871	(32,197)	80,994
Southern Hills				
Total pooled	(4,913)	6,439	-	1,526
Spicewood				
Total pooled	24,123	12,052	-	36,175
Trails				
Pooled items:				
Landscaping - tree maintenance			(421)	
Total pooled	33,192	3,093	(421)	35,864
Watters Branch				
Pooled items:				
Property site elements			(4,611)	
Total pooled	98,888	36,239	(4,611)	130,516
Total	\$ 2,861,903	\$ 553,790	\$ (1,220,729)	\$ 2,194,964

December 31,

2020

Performance obligation liability	\$ 2,116,587
Replacement fund balance	78,377
Total	\$ 2,194,964

Craig Ranch Community Association, Inc.
Schedule of Operating Fund Revenue and Expenses – Budget and Actual

For the year ended December 31,

2020

	Actual	Budget (Unaudited)	Variance - Favorable (Unfavorable) (Unaudited)
Revenue			
Regular assessments	\$ 4,354,624	\$ 4,276,675	\$ 77,949
Parcel developer deficit funding	138,355	137,688	667
Interest income	4,523	4,744	(221)
Other income	213,364	156,778	56,586
Insurance assessments	180,378	-	180,378
Total revenue	4,891,244	4,575,885	315,359
Expenses			
Administrative	1,387,606	1,158,598	(229,008)
Bad debt provision	76,204	37,692	(38,512)
Depreciation	29,648	10,200	(19,448)
Insurance	703,528	591,346	(112,182)
Maintenance and repairs	1,781,952	2,116,389	334,437
Utilities	869,735	734,326	(135,409)
Total expenses	4,848,673	4,648,551	(200,122)
Excess (deficit) of revenue over expenses	42,571	(72,666)	115,237
Beginning fund balance	564,136	-	564,136
Capital contributions	60,406	17,429	42,977
Ending fund balance (deficit)	\$ 667,113	\$ (55,237) *	\$ 722,350

* Deficit is primarily due to budgeted deficit in Spicewood service area.

Craig Ranch Community Association, Inc.
Supplementary Information on Future Major Repairs and Replacements
(Unaudited)

The following table is based on professional studies prepared in 2020 for the master and service areas:

Component	Estimated Remaining Useful Life	Estimated Replacement Cost	Accumulated Funds at 12/31/20
Master			
Pooled items:			
Clubhouse elements (The Compass)	8 - 30+	\$ 452,500	
Community elements	0 - 30+	1,283,000	
Crescent Park	7 - 30+	193,300	
Crossroads Park	3 - 30+	955,380	
Dog park	1 - 30+	228,070	
Dr. Kenneth Cooper Park	3 - 12	363,600	
Heron Bay Park	7 - 18	15,800	
Millie Cooper Park	2 - 30+	168,300	
Total pooled items		3,659,950	\$ 248,476
Chateau's of the Settlement at Craig Ranch			
Pooled items:			
Exterior building elements	6 - 23	1,352,872	
Property site elements	0 - 30+	347,600	
Total pooled items		1,700,472	72,659
Estates at Craig Ranch			
Nonpooled items:			
Streets	1 - 30+	4,118,000	131,662
Pooled items:			
Access control and perimeter elements	0 - 25	639,220	
Pond elements	0 - 30+	827,160	
Total pooled items		1,466,380	245,492
The Grove at Craig Ranch			
Pooled items:			
Concrete sidewalks	2 - 30+	169,400	
Fences	3- 29	28,560	
Landscaping - tree maintenance	0	3,500	
Mailbox stations	21	40,000	
Playground equipment	16	37,500	
Shade structure	6 - 16	15,000	
Signage	16	7,000	
Site furniture	14	15,000	
Total pooled items		315,960	45,458

(continued)

Craig Ranch Community Association, Inc.
Supplementary Information on Future Major Repairs and Replacements
(Continued) (Unaudited)

Component	Estimated Remaining Useful Life	Estimated Replacement Cost	Accumulated Funds at 12/31/20
Hemingway at Craig Ranch			
Pooled items:			
Clubhouse elements	1 - 19	219,750	
Exterior building elements	0 - 29	3,775,530	
Pool elements	3 - 15	188,450	
Property site elements	0 - 30+	1,021,640	
Total pooled items		5,205,370	914,528
Craig Ranch North			
Pooled items:			
Pool and pool house elements	0 - 24	511,220	
Property site elements	0 - 30+	1,306,670	
Total pooled items		1,817,890	\$ 251,614
Settlement Townhomes			
Pooled items:			
Exterior building elements	5 - 21	72,059	
Property site elements	8 - 30+	76,250	
Total pooled items		148,309	80,994
Southern Hills			
Pooled items:			
Concrete sidewalks	3 - 30+	393,800	
Fences and trellis	2 - 29	59,840	
Landscaping	0	4,000	
Mailbox stations	20	54,000	
Pergolas	20 - 25	48,000	
Playground equipment	13	70,000	
Signage	15	5,000	
Site furniture	15	11,500	
Total pooled items		646,140	1,526

(continued)

Craig Ranch Community Association, Inc.
Supplementary Information on Future Major Repairs and Replacements
(Continued) (Unaudited)

Component	Estimated Remaining Useful Life	Estimated Replacement Cost	Accumulated Funds at 12/31/20
Spicewood			
Pooled items:			
Concrete sidewalks	2 - 30+	78,100	
Landscaping - tree maintenance	0	2,500	
Mailbox stations	20	38,000	
Retaining wall, masonry, inspection and capital repairs	15	2,000	
Signage	15	6,000	
String lights	18	4,000	
Total pooled items		130,600	36,175
Trails			
Pooled items:			
Concrete sidewalks	2 - 30+	211,200	
Gazebo	22	33,500	
Landscaping - tree maintenance	0	2,000	
Mailbox stations	19	16,000	
Pavers	14	14,420	
Site furniture	12	8,400	
Total pooled items		285,520	35,864
Watters Branch			
Pooled items:			
Property site elements	0 - 30+	165,620	
Pool and pool house elements	3 - 29	144,285	
Total pooled items		309,905	130,516
Total		\$ 19,804,496	\$ 2,194,964